IBJ (6071)

Earnings growth reaccelerating

Share price: ¥671 Market cap: ¥28.2bn

5 September 2024

Q2 FY12/24 results update

- **Positive indications of stable growth** – Q1-2 FY12/24 results were in line with company guidance, with all business segments demonstrating profit growth YoY. Stable sales growth at the Affiliate Business and the Directly-Managed Lounge Business and effective marketing spending improved OPM YoY. The Life Design Business grew sales by 50.4% YoY, highlighting the company's success in diversification and identifying new growth businesses. The outlook for H2 FY12/24 is positive in our view, as the company continues to cement its position as the market leader in marriage consulting services, with a competitive service line-up of three internal brands (IBJ Members, ZWEI and Sunmarie) and the business alliance with O-net which is beginning to gain traction from June 2024..



Source: Bloomberg

Maintaining earnings estimates

- **New affiliate business openings showing consecutive quarterly growth** – The Affiliate Business remains the core earnings driver, contributing nearly half of IBJ's total OP. The outlook is geared to the number of new affiliate business openings, and Q2 FY12/24 saw 235 new openings equating to a 7% increase YoY (versus a 16% decline in Q1 FY12/24). We maintain our view that the company can convert around 70 to 80 new affiliate openings every month, indicating that this business segment will sustain growth and maintain its high profitability.
- **Valuations**—Based on our unchanged estimates, the shares are trading at an estimated PER FY12/25 of 14.2x (on +11.5% EPS growth YoY), FCF yield of 6.5%, and total shareholder return of 2.8% (based on a 15% dividend payout and ¥0.5bn allocated to share buybacks).

Year-end	12/22	12/23	12/24E	12/25E	12/26E
Sales (¥bn)	14.72	17.65	18.88	20.30	21.82
OP (¥bn)	1.99	2.23	2.36	2.64	2.84
NI (¥bn)	1.49	1.63	1.69	1.89	2.03
EPS (¥)	37.17	40.84	42.46	47.36	50.83
DPS (¥)	6.00	6.00	6.37	7.10	7.62
Sales growth YoY (%)	+4.5	+19.9	+7.0	+7.5	+7.5
OP growth YoY (%)	+31.5	+11.9	+5.8	+11.8	+7.5
NP growth YoY (%)	+41.7	+9.1	+4.0	+11.5	+7.3
EPS growth YoY (%)	+41.2	+9.9	+4.0	+11.5	+7.3
PER (x)	18.1	16.4	15.8	14.2	13.2
EV/EBITDA (x)	11.4	10.2	9.5	8.6	8.0
EV/Sales (x)	2.0	1.7	1.6	1.5	1.4
PBR (x)	3.7	3.8	3.7	3.7	3.6
ROE (%)	21.7	21.7	22.4	24.7	26.2
ROCE (%)	20.0	20.4	21.5	24.0	25.2
FCF yield (%)	4.8	3.6	7.9	6.5	7.0
Dividend yield (%)	0.9	0.9	0.9	1.1	1.1
Total shareholder returns (%)	0.9	4.7	2.7	2.8	2.9

Source: Company, Astris Advisory (estimates)

Price Performance

	YTD	1M	3M	12M
Abs (%)	-5.5	+43.4	+10.7	+6.2
Rel (%)	-14.7	+21.8	+16.1	-3.7

Company sector

Commercial Services
Diversified Consumer Services

Stock data

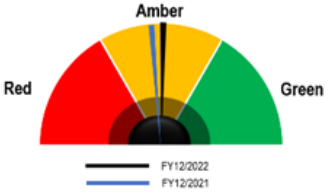
Price (¥)	671
Mkt cap (¥bn)	28.2
Mkt cap ($m)	196.2
52-week range (¥)	460-777
Shares O/S (m)	42.0
Average daily value ($m)	0.7
Free float (%)	37.2
Foreign shareholding (%)	5.7
Ticker	6071
Exchange	Tokyo Prime
Net Debt/Equity (x)	N/A
FFO leverage (x)	1.6
BBG BUY | HOLD | SELL	2 | 0 | 0

Source: Bloomberg

Business Overview

IBJ is a domestic online and offline matchmaking agency for individuals seeking to marry. The business is divided into three main segments: the matching business, which provides gateway services for marriage activities; the marriage consultation office business, which is the growth driver of IBJ and combines franchise and directly operated stores; and the life design business, which offers support after successful marriages. Listed in December 2012, the company is a niche market leader.

Astris-Sustainability ESG rating



Reference Ratings	
MSCI	N/A
Sustainalytics	N/A
Refinitiv	N/A
S&P Global	34
Bloomberg	N/A

Next events

Q3 FY12/24 results November 2024

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This report has been commissioned and paid for by the company

Recent results

Q1-2 FY12/24 results

Results remain in line with FY12/24 guidance

Key financials

(¥bn)	Q1-2 FY12/23	Q1-2 FY12/24	YoY (%)
Sales	**7.73**	**8.57**	**+10.9**
Gross profit/(loss)	7.41	7.97	+7.6
Gross margins (%)	***95.9***	***93.1***	
Operating profit/(loss)	**0.96**	**1.27**	**+31.7**
Operating margins (%)	***12.5***	***14.8***	
Recurring profit	1.00	1.27	+26.3
Net income attributable to the parent	0.81	0.87	+7.5

Source: Company

Stable profit growth for all segments

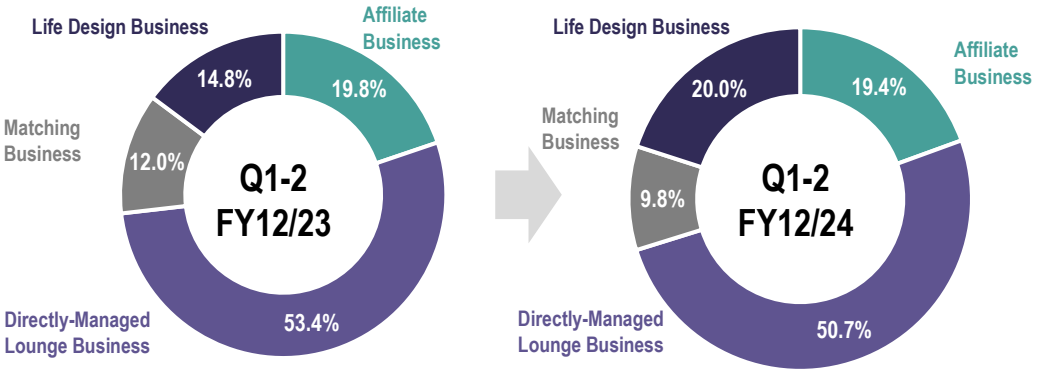
Per business segment (pre elimnations)

(¥bn)	Q1-2 FY12/23	Q1-2 FY12/24	YoY (%)
Sales			
Affiliate Business	1.55	1.69	+9.0
Directly-Managed Lounge Business	4.18	4.41	+5.7
Matching Business	0.94	0.85	-9.0
Life Design Business	1.16	1.74	+50.4
Segmental profit/(loss)			
Affiliate Business	0.84	1.08	+28.8
Directly-Managed Lounge Business	0.70	0.82	+17.7
Matching Business	0.07	0.07	+7.3
Life Design Business	0.18	0.23	+29.3
Segmental profit margins (%)			
Affiliate Business	53.9	63.7	
Directly-Managed Lounge Business	16.7	18.6	
Matching Business	7.2	8.5	
Life Design Business	15.4	13.2	

Source: Company

Life Design Business raising its profile YoY

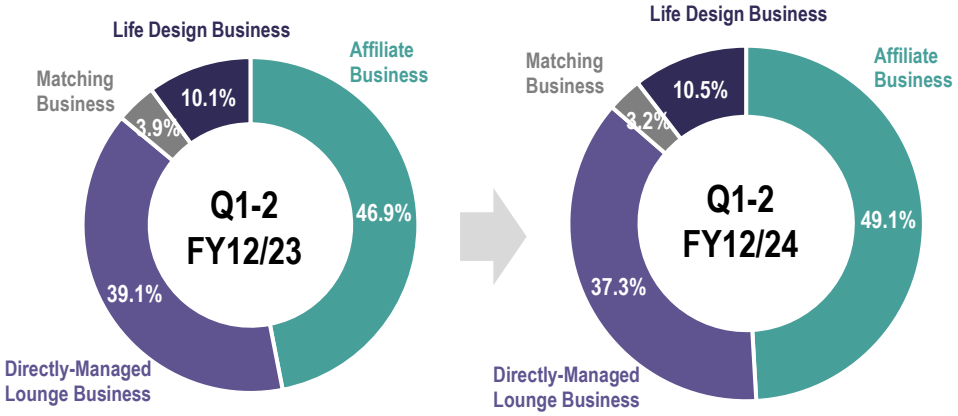
Sales split per business segment



Source: Company

Affiliate Business contributes nearly half of total OP

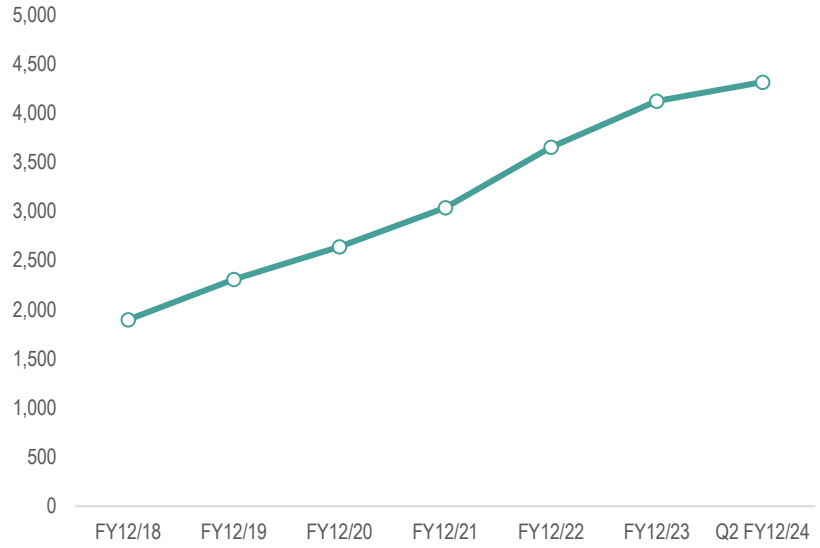
Operating profit split by business segment (pre-elimination)



Source: Company

Trend remains stable for affiliate number growth

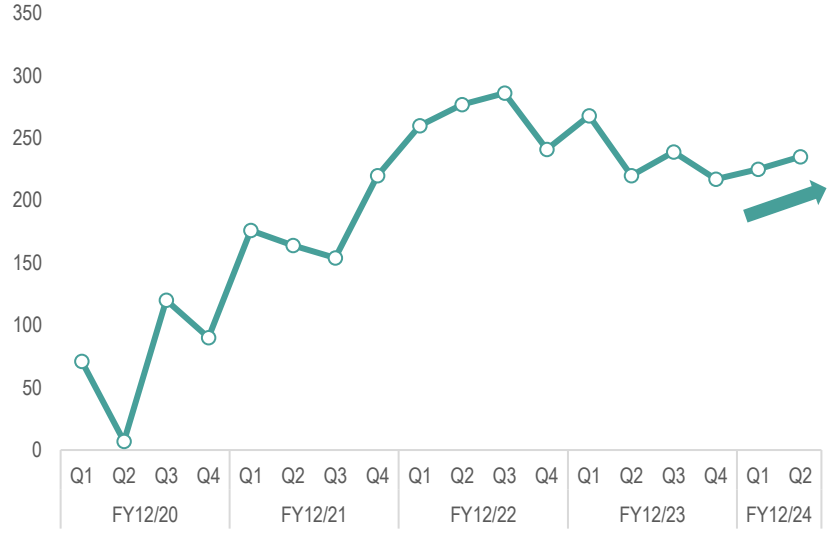
Annual affiliate members



Source: Company

Quarterly affiliate business openings are stabilizing

Quarterly new affiliate business openings



Source: Company
Note: Data for new openings, and not net affiliate increases QoQ

Key highlights

Q1-2 FY12/24 results were in line with guidance, with the company demonstrating stable growth in its core Affiliate Business and the Directly-Managed Lounge Business. There was notable growth in the Life Design Business, with significant contribution from the subsidiary K Village hobby and communities operation. The key takeaways are as follows:

- **Recovering growth in business openings at the Affiliate Business** – new affiliate business openings experienced a consecutive quarter of growth, driven by staff training and marketing efficiency improvements.

- **ZWEI delivered strong performance** - as part of its Directly-Managed Lounge Business (marriage consulting services), the ZWEI brand was said to have performed positively with staff enhancing their skills. The company believes that the three internal brands (IBJ Members, ZWEI, and Sunmarie) and O-net provide a differentiated and effective service line-up. Average pricing remains on the rise for IBJ members with the introduction of new optional services.
- **Life Design Business scaling up** – the hobby and communities operation at subsidiary K Village continues to see strong sales growth (Q1-2 FY12/24 +70.5% YoY), with post-marriage-related services such as weddings, insurance, and real estate growing in line with successful matches.
- **OPM improvement YoY** – rising from 12.5% to 14.8% was driven by a combination of 1) more efficient and effective marketing activities, and 2) rising sales volume.

We believe the earnings outlook for H2 FY12/24 remains positive due to the following:

- Continued steady demand for marriage consulting services, with O-net expected to make a material contribution to new memberships, with the collaboration operating fully from June 2024.
- More efficient marketing spend YoY.
- No major SG&A items planned for H2 FY12/24.

The company has maintained FY12/24 guidance. We expect to see a deceleration in earnings growth YoY due to the one-time disposal of the REIT fund in Q3 FY12/23. However, we maintain that underlying earnings growth will remain at double-digits YoY.

Astris earnings estimates and key assumptions

We have maintained our earnings estimates for FY12/24 and beyond

Astris Advisory earnings estimates

Year-end	FY12/24 guidance	FY12/24E	FY12/25E	FY12/26E
Sales	**18.20**	**18.88**	**20.30**	**21.82**
Growth YoY (%)	+3.1	+7.0	+7.5	+7.5
OP (¥bn)	**2.22**	**2.36**	**2.64**	**2.84**
OPM (%)	13.6	12.5	13.0	13.0
EBITDA (¥bn)	**-**	**3.12**	**3.45**	**3.71**
EBITDA margins (%)	-	16.5	17.0	17.0
FCF (¥bn)	**-**	**3.36**	**1.83**	**1.98**
FCF margin (%)	-	17.8	9.0	9.1
FCF conversion (%)	-	92.0	67.9	68.2
FCF yield (%)	**-**	**13.5**	**7.4**	**7.9**
DPS (¥)	**N/A**	**6.37**	**7.10**	**7.62**
Dividend yield	**-**	**0.9**	**1.1**	**1.1**
Total shareholder return (%)	**-**	**2.7**	**2.8**	**2.9**

Source: Astris Advisory
Note: FCF conversion is FCF/Pre-tax Profit

The core assumptions of our estimates are as follows:

- **Sales growth** – we estimate high single-digit growth for the core matchmaking activity, with growth supplemented by scaling the Life Design Business and strategic M&A activity.
- **Profitability** – at this current juncture we believe the business can maintain stable operating margins, balancing the needs of business investment as well as scaling the Life Design Business.
- **Sustainable free cash flow generation** – we believe the company will continue to generate positive free cash flow with its asset-light business model and maintain an FCF conversion rate of around 70% for the medium term.

Summary

Market leading domestic marriage matchmaker

IBJ is a leading domestic matchmaking agency, specializing in both online and offline services for individuals looking to get married. The business is divided into three main segments: the matching business, which provides gateway services for marriage activities; the marriage consultation office business, which is the growth driver of IBJ and combines franchise and directly operated stores; and the life design business, which offers support after successful marriages. The company, which went public in December 2012, holds a prominent position as a leader in the niche market. With its corporate philosophy of 'bringing happiness to everyone who has a connection', it has a strong brand and high reputation stemming from positive customer interactions and high matchmaking performance.

It has embarked on a medium-term growth strategy to FY12/27 based on the following:

- Conducting marriages for 20,000 couples per annum, equivalent to approximately 4% of the total nationwide (estimated to remain around current levels of 500,000 marriages).
- Reaching 7,000 affiliate companies in the IBJ alliance network (FY12/23 was 4,211).
- **To generate ¥24.0bn sales and ¥3.5bn operating profit (14.6% OPM) in FY12/27.**
- **Focus capital allocation** on M&A and building alliances.

Astris Advisory estimates IBJ will drive medium-term growth via the following factors:

- Conduct M&A activity as the company aims to drive economies of scale and network effects for its matchmaking service.
- Stable operating profit margins demonstrating its pricing power and ability to deliver high matchmaking rates.

The shares are trading on an estimated PER FY12/25 of 14.2x (on +11.5% EPS growth YoY), FCF yield of 6.5%, and a total shareholder return of 2.8%.

JGAAP Financial Summary

(¥bn)	FY 12/22	FY 12/23	FY 12/242	FY 12/25E	FY 12/26E
Sales	**14.72**	**17.65**	**18.88**	**20.30**	**21.82**
COGS	0.54	2.55	2.83	3.05	3.27
Gross profit	**14.18**	**15.10**	**16.05**	**17.26**	**18.55**
Gross profit margin (%)	96.3	85.5	85.0	85.0	85.0
Total OP	**1.99**	**2.23**	**2.36**	**2.64**	**2.84**
OP margin (%)	13.5	12.6	12.5	13.0	13.0
Non-operating income	0.07	0.08	0.08	0.08	0.08
Non-operating expenses	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)
Recurring profit	**2.05**	**2.29**	**2.42**	**2.70**	**2.90**
Extraordinary gains	0.01	0.40	-	-	-
Extraordinary losses	(0.04)	(0.33)	-	-	-
Pre-tax profit	**2.01**	**2.36**	**2.42**	**2.70**	**2.90**
Tax	(0.55)	(0.69)	(0.73)	(0.81)	(0.87)
Effective tax rate (%)	26.8	30.1	30.0	30.0	30.0
Net income	**1.46**	**1.67**	**1.69**	**1.89**	**2.03**
Non-controlling NI	(0.03)	0.04	-	-	-
Parent attributable NI	**1.49**	**1.63**	**1.69**	**1.89**	**2.03**
Sales growth YoY (%)	+4.5	+19.9	+7.0	+7.5	+7.5
OP growth YoY (%)	+31.5	+11.9	+5.8	+11.8	+7.5
Pre-tax profit YoY (%)	+42.4	+17.3	+2.5	+11.5	+7.3
NI growth YoY (%)	+41.7	+9.1	+4.0	+11.5	+7.3

Cash flow statement (¥bn)	FY 12/22	FY 12/23	FY 12/242	FY 12/25E	FY 12/26E
Profit before tax	**2.01**	**2.36**	**2.42**	**2.70**	**2.90**
Depreciation/amortization	0.61	0.69	0.76	0.81	0.87
Changes in working capital	(0.03)	1.18	0.75	0.18	0.20
Other non-cash items	(0.00)	(0.05)	(0.03)	(0.04)	(0.03)
Tax paid	(0.45)	(0.66)	(0.73)	(0.81)	(0.87)
Cash from Operating Activities	**2.14**	**3.52**	**3.17**	**2.85**	**3.07**
Capex	(0.78)	(2.50)	(0.94)	(1.02)	(1.09)
Acquisitions/increase stakes	(0.53)	(0.11)	-	-	-
Other investing cash flow	(0.63)	(1.55)	(1.09)	(1.32)	(1.21)
Cash from Investing Activities	**(1.94)**	**(4.17)**	**(2.03)**	**(2.34)**	**(2.30)**
Total cash dividends paid	(0.24)	(0.24)	(0.25)	(0.28)	(0.30)
Debt issuance/(retirement)	(0.48)	2.88	-	-	-
Equity financing/(buybacks)	-	(1.07)	(0.50)	(0.50)	(0.50)
Other	(0.01)	0.04	0.04	0.04	0.04
Cash from Financing Activities	**(0.73)**	**1.61**	**(0.71)**	**(0.74)**	**(0.76)**
FX impact	0.00	0.00	0.00	0.00	0.00
Net cash flow	**(0.53)**	**0.95**	**0.43**	**(0.22)**	**0.01**
Free cash flow	**1.36**	**1.02**	**2.23**	**1.83**	**1.98**
EBITDA	**2.60**	**2.92**	**3.12**	**3.45**	**3.71**
EBITDA margin (%)	17.7	16.5	16.5	17.0	17.0
Free cash flow margin (%)	9.3	5.8	11.8	9.0	9.1
Free cash flow conversion (%)	67.7	43.0	92.0	67.9	68.2
Capex/sales (%)	5.3	14.2	5.0	5.0	5.0
Capex/depreciation (%)	127.7	364.6	125.0	125.0	125.0
CFO margin (%)	14.5	19.9	16.8	14.0	14.1

Balance sheet (¥bn)	FY 12/22	FY 12/23	FY 12/242	FY 12/25 E	FY 12/26 E
Cash & equivalents	**3.30**	**3.79**	**4.22**	**3.99**	**4.01**
Accounts receivables	1.97	0.94	0.94	0.94	0.94
Inventory and WIP	1.29	1.61	1.73	1.86	2.00
Other	0.86	1.75	1.40	1.40	1.40
Current assets	**7.42**	**8.09**	**8.28**	**8.18**	**8.34**
Tangible assets	1.66	3.00	3.38	3.78	4.22
Goodwill	1.55	1.53	1.53	1.53	1.53
Intangible assets	0.35	1.08	1.08	1.08	1.08
Long term investments	1.06	1.96	1.96	1.96	1.96
Other	1.77	2.46	2.46	2.46	2.46
Fixed assets	**6.40**	**10.03**	**10.41**	**10.81**	**11.25**
Total assets	**13.82**	**18.12**	**18.69**	**19.00**	**19.59**
Short term borrowing	1.30	3.50	3.50	3.50	3.50
Trade payables	0.04	0.49	0.55	0.60	0.64
Other	2.53	3.20	3.64	3.91	4.20
Current liabilities	**3.87**	**7.19**	**7.69**	**8.01**	**8.35**
Long term borrowing	1.34	2.22	2.22	2.22	2.22
Other LT liabilities	0.65	0.69	0.69	0.69	0.69
Long term liabilities	**1.99**	**2.91**	**2.91**	**2.91**	**2.91**
Shareholder's equity	**7.57**	**7.45**	**7.66**	**7.63**	**7.84**
Share acquisitions rights	0.00	0.10	0.10	0.10	0.10
Non-controlling interests	0.40	0.48	0.32	0.35	0.39
Total net assets	**7.96**	**8.02**	**8.08**	**8.08**	**8.33**
Total liabilities & net assets	**13.82**	**18.12**	**18.69**	**19.00**	**19.59**

Key metrics	FY 12/22	FY 12/23	FY 12/242	FY 12/25E	FY 12/26E
Profitability					
Gross margin (%)	96.3	85.5	85.0	85.0	85.0
Operating margin (%)	13.5	12.6	12.5	13.0	13.0
Net margin (%)	10.1	9.2	9.0	9.3	9.3
ROA (%)	11.0	10.2	9.2	10.0	10.5
ROE (%)	21.7	21.7	22.4	24.7	26.2
ROCE (%)	20.0	20.4	21.5	24.0	25.2
ROIC (%)	14.7	13.3	12.4	13.8	14.8
Liquidity					
Current ratio (x)	1.9	1.1	1.1	1.0	1.0
Leverage					
Debt/Equity ratio (x)	0.3	0.8	0.7	0.8	0.7
Net Debt/Equity ratio (x)	net cash	0.3	0.2	0.2	0.2
Equity ratio (x)	0.5	0.4	0.4	0.4	0.4
Interest cover (x)	431.2	185.9	41.2	46.1	49.6
Net Debt/EBITDA (x)	N/A	0.7	0.5	0.5	0.5
Valuation					
EPS reported (¥)	37.17	40.84	42.46	47.36	50.83
PER (x)	**18.1**	**16.4**	**15.8**	**14.2**	**13.2**
Diluted PER (x)	**19.0**	**17.3**	**16.6**	**14.9**	**13.9**
DPS (¥)	6.0	6.0	6.4	7.1	7.6
Dividend payout ratio (%)	16.1	14.7	15.0	15.0	15.0
Dividend yield (%)	**0.9**	**0.9**	**0.9**	**1.1**	**1.1**
Total shareholder return (%)	**0.9**	**4.7**	**2.7**	**2.8**	**2.9**
Free cash flow yield (%)	**4.8**	**3.6**	**7.9**	**6.5**	**7.0**
Diluted FCF yield (%)	**4.6**	**3.4**	**7.5**	**6.2**	**6.7**
PBR (x)	3.7	3.8	3.7	3.7	3.6
EV/sales (x)	2.0	1.7	1.6	1.5	1.4
EV/EBITDA (x)	11.4	10.2	9.5	8.6	8.0
EV/EBIT (x)	14.9	13.3	12.6	11.2	10.5
EV/FCF (x)	21.8	29.2	13.3	16.2	15.0

Source: Company, Astris Advisory

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